

CITY OF HINTON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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CITY OF HINTON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Fischer	Mayor	January, 2010
Randy Roehrich	Council Member	January, 2010
Cam Kounkel (resigned 11/2008)	Council Member	January, 2010
Ken Spies (appointed 12/2008)	Council Member	January, 2010
Jeff Johnson	Council Member	January, 2012
Keith Towns	Council Member	January, 2012
Mike Weinrich	Council Member	January, 2012
Gerry Judd	City Clerk	Indefinite
Barry Thompson	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Hinton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hinton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for City of Hinton as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2010, on our consideration of City of Hinton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 10, and 23 and 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

February 4, 2010

Hunzelman, Butzger & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Hinton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$617,494 for the year ended June 30, 2009 and included \$255,704 in property taxes, \$163,820 in tax increment financing collections, and \$77,916 in local option sales tax.

Disbursements of the City's governmental activities were \$875,065 for the year ended June 30, 2009 and included \$575,073 for public works, \$124,931 for public safety, \$94,990 for general government, and \$42,571 for culture and recreation.

The City's total cash basis net assets increased 10%, or approximately \$209,000, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased approximately \$221,000 and the assets of the business type activities increased by approximately \$430,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, general government, and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the electric and golf course services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two categories of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (3) the Debt Service Fund, and (4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the electric, water, sewer, garbage, golf course, and utility deposit funds. The electric and golf course funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended June 30,</u> <u>2009</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 29,453
Operating grants, contributions and restricted interest	72,864
General receipts:	
Property tax	255,704
Tax increment financing	163,820
Local option sales tax	77,916
Unrestricted investment earnings	10,704
Other general receipts	7,033
Transfers, net	<u>36,911</u>
Total receipts and transfers	<u>654,405</u>
 Disbursements:	
Public safety	124,931
Public works	575,073
Culture and recreation	42,571
General government	94,990
Debt service	<u>37,500</u>
Total disbursements	<u>875,065</u>
 Decrease in cash basis net assets	(220,660)
 Cash basis net assets beginning of year	<u>528,448</u>
 Cash basis net assets end of year	<u>\$ 307,788</u>

The cash basis net assets of the City's governmental activities decreased 41.8%, or approximately \$221,000, due primarily to expenditures of \$527,115 for a street project and \$38,000 for the Marland Park renovation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year Ended June 30,</u> <u>2009</u>
Receipts:	
Program receipts:	
Charges for service:	
Electric	\$ 587,223
Water	79,363
Sewer	31,116
Garbage	58,713
Golf course	327,163
Utility deposits	850
General receipts:	
Unrestricted earnings on investments	30,789
Capital loan note proceeds	<u>400,000</u>
Total receipts	<u>1,515,217</u>
Disbursements and transfers:	
Electric	581,135
Water	55,627
Sewer	56,551
Garbage	60,348
Golf course	293,976
Utility deposits	400
Transfers	<u>36,911</u>
Total disbursements and transfers	<u>1,084,948</u>
Increase in cash balance	430,269
Cash basis net assets beginning of year	<u>1,476,193</u>
Cash basis net assets end of year	<u>\$ 1,906,462</u>

Total business type activities cash basis net assets increased from a year ago, from approximately \$1,476,000 to approximately \$1,906,000. The increase is primarily the result of proceeds of a capital loan note of \$400,000 received in June with expenditures to be paid in the following fiscal year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Hinton completed the year, its governmental funds reported a combined fund balance of \$307,788, a decrease of \$220,660 from last year's total of \$528,448. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$118,665 from the prior year to \$300,234. This decrease was primarily due to transferring \$110,000 to road use for street repairs.

The Special Revenue, Road Use Tax Fund, cash balance decreased by \$36,192 to \$3,951 during the fiscal year. This decrease was primarily due to funding a major street project.

The Special Revenue, Tax Increment Financing Fund, cash balance decreased by \$180 to \$3,407.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund, which accounts for the operation and maintenance of the City's electric system, cash balance decreased by \$9,077 to \$989,321 during the fiscal year.

The Golf Course Fund, which accounts for the operation and maintenance of the City's public golf course, cash balance increased by \$435,948 from the prior year to \$602,088. This increase was the result of selling capital loan notes of \$400,000 in June and also a general increase in play at the golf course.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on December 9, 2008, and resulted in an increase of \$413,000 in disbursements.

The budget was amended to pay for a major street project decided upon after the budget was completed.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$700,952 in bonds and loans, compared to approximately \$376,198 last year, as shown below.

Outstanding Debt at Year-End

June 30, 2009

Revenue bonds	\$ 550,000
General obligation bonds and loans	<u>150,952</u>
	<u>\$ 700,952</u>

Debt increased as a result of issuing \$400,000 in revenue capital loan notes to construct a new clubhouse at the golf course.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$150,952 is significantly below its constitutional debt limit of approximately \$3 million.

ECONOMIC FACTORS

Nothing of significance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gerry Judd, City Clerk, P.O. Box 1023, Hinton, Iowa 51024-1023.

CITY OF HINTON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions, and Restricted Interest			
	<u>Disbursements</u>	<u>Charges for Service</u>		<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions/Programs:						
Governmental activities:						
Public safety	\$ 124,931	\$ 9,354	\$ 3,824	\$ (111,753)	\$ -	\$ (111,753)
Public works	575,073	1,514	67,040	(506,519)	-	(506,519)
Culture and recreation	42,571	13,135	2,000	(27,436)	-	(27,436)
General government	94,990	5,450	-	(89,540)	-	(89,540)
Debt service	37,500	-	-	(37,500)	-	(37,500)
Total governmental activities	<u>875,065</u>	<u>29,453</u>	<u>72,864</u>	<u>(772,748)</u>	<u>-</u>	<u>(772,748)</u>
Business type activities:						
Electric	581,135	587,223	-	-	6,088	6,088
Water	55,627	79,363	-	-	23,736	23,736
Sewer	56,551	31,116	-	-	(25,435)	(25,435)
Garbage	60,348	58,713	-	-	(1,635)	(1,635)
Golf course	293,976	327,163	-	-	33,187	33,187
Utility deposits	400	850	-	-	450	450
Total business type activities	<u>1,048,037</u>	<u>1,084,428</u>	<u>-</u>	<u>-</u>	<u>36,391</u>	<u>36,391</u>
Total	<u>\$ 1,923,102</u>	<u>\$ 1,113,881</u>	<u>\$ 72,864</u>	<u>(772,748)</u>	<u>36,391</u>	<u>(736,357)</u>
General Receipts:						
Property and other city tax levied for:						
General purposes				218,051	-	218,051
Debt Service				37,653	-	37,653
Tax increment financing				163,820	-	163,820
Local option sales tax				77,916	-	77,916
Unrestricted interest on investments				10,704	30,789	41,493
Capital loan note proceeds				-	400,000	400,000
Miscellaneous				7,033	-	7,033
Transfers				<u>36,911</u>	<u>(36,911)</u>	<u>-</u>
Total general receipts and transfers				<u>552,088</u>	<u>393,878</u>	<u>945,966</u>
Change in cash basis net assets				(220,660)	430,269	209,609
Cash basis net assets beginning of year				<u>528,448</u>	<u>1,476,193</u>	<u>2,004,641</u>
Cash basis net assets end of year				<u>\$ 307,788</u>	<u>\$ 1,906,462</u>	<u>\$2,214,250</u>

(Continued)

CITY OF HINTON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit A
(Continued)

	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Cash Basis Net Assets					<u>Total</u>
Restricted:					
Streets				\$ 3,951	\$ - \$ 3,951
Tax increment purposes				3,407	- 3,407
Debt service				135	77,822 77,957
Other purposes				61	- 61
Unrestricted				300,234	1,828,640 2,128,874
Total cash basis net assets				<u>\$ 307,788</u>	<u>\$ 1,906,462</u> <u>\$2,214,250</u>

See notes to financial statements.

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	<u>Special Revenue</u>			<u>Other</u>	
		<u>Road</u>	<u>Tax Increment</u>	<u>Non-major</u>	
	<u>General</u>	<u>Use</u>	<u>Financing</u>	<u>Governmental</u>	<u>Total</u>
				<u>Funds</u>	
Receipts:					
Property tax	\$ 216,881	\$ -	\$ -	\$ 37,490	\$ 254,371
Tax increment financing	-	-	163,820	-	163,820
Other city tax	1,170	-	-	78,079	79,249
Licenses and permits	1,330	-	-	-	1,330
Use of money and property	23,839	-	-	-	23,839
Intergovernmental	-	67,040	-	-	67,040
Miscellaneous	27,845	-	-	-	27,845
Total receipts	<u>271,065</u>	<u>67,040</u>	<u>163,820</u>	<u>115,569</u>	<u>617,494</u>
Disbursements:					
Operating:					
Public safety	124,931	-	-	-	124,931
Public works	9,767	406,823	158,483	-	575,073
Culture and recreation	3,999	-	38,572	-	42,571
General government	94,990	-	-	-	94,990
Debt service	-	-	-	37,500	37,500
Total disbursements	<u>233,687</u>	<u>406,823</u>	<u>197,055</u>	<u>37,500</u>	<u>875,065</u>
Excess (deficiency) of receipts over disbursements	<u>37,378</u>	<u>(339,783)</u>	<u>(33,235)</u>	<u>78,069</u>	<u>(257,571)</u>
Other financing sources (uses):					
Transfers in	22,692	303,591	197,055	-	523,338
Transfers out	(178,735)	-	(164,000)	(143,692)	(486,427)
Total other financing sources (uses)	<u>(156,043)</u>	<u>303,591</u>	<u>33,055</u>	<u>(143,692)</u>	<u>36,911</u>
Net change in cash balances	(118,665)	(36,192)	(180)	(65,623)	(220,660)
Cash balances beginning of year	418,899	40,143	3,587	65,819	528,448
Cash balances end of year	<u>\$ 300,234</u>	<u>\$ 3,951</u>	<u>\$ 3,407</u>	<u>\$ 196</u>	<u>\$ 307,788</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ 135	\$ 135
Unreserved:					
General fund	300,234	-	-	-	300,234
Special revenue funds	-	3,951	\$ 3,407	61	7,419
Total cash basis fund balances	<u>\$ 300,234</u>	<u>\$ 3,951</u>	<u>\$ 3,407</u>	<u>\$ 196</u>	<u>\$ 307,788</u>

See notes to financial statements.

CITY OF HINTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Enterprise			
	Electric	Golf Course	Non-major Proprietary Funds	Total
Operating receipts:				
Charges for service	\$ 574,090	\$ 318,348	\$168,692	\$1,061,130
Miscellaneous	13,133	8,815	1,350	23,298
Total operating receipts	587,223	327,163	170,042	1,084,428
Operating disbursements:				
Business type activities	581,135	293,976	142,726	1,017,837
Excess of operating receipts over operating disbursements	6,088	33,187	27,316	66,591
Non-operating receipts (disbursements):				
Interest on investments	21,746	2,761	6,282	30,789
Capital loan note proceeds	-	400,000	-	400,000
Debt service	-	-	(30,200)	(30,200)
Net non-operating receipts (disbursements)	21,746	402,761	(23,918)	400,589
Excess of receipts over disbursements	27,834	435,948	3,398	467,180
Operating transfers in	174,000	-	20,000	194,000
Operating transfers out	(210,911)	-	(20,000)	(230,911)
	(36,911)	-	-	(36,911)
Net change in cash balances	(9,077)	435,948	3,398	430,269
Cash balances beginning of year	998,398	166,140	311,655	1,476,193
Cash balances end of year	\$ 989,321	\$ 602,088	\$315,053	\$1,906,462
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 77,822	\$ 77,822
Unreserved	989,321	602,088	237,231	1,828,640
Total cash basis fund balances	\$ 989,321	\$ 602,088	\$315,053	\$1,906,462

See notes to financial statements.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hinton is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hinton has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standard Board criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Plymouth County Assessor's Conference Board, Plymouth County E911 Board, and Plymouth County Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Golf Course Fund accounts for the operation and maintenance of the City's public golf course.

C. Measurement Focus and Basis of Accounting

City of Hinton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2009, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Due from /to:		
General Fund	\$ -	\$ 130,000
Special Revenue Fund		
Tax Increment Financing	-	236,859
Proprietary Fund		
Electric	<u>366,859</u>	<u>-</u>
	<u>\$ 366,859</u>	<u>\$ 366,859</u>

The balance of \$130,000 due to the electric fund from the general fund resulted from a loan made for the purchase of land to be used for future development. This balance will be paid as funds become available.

The balance of \$236,859 due to the electric fund from the tax increment financing fund resulted from a loan made for infrastructure improvements. This balance will be paid as funds become available.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, and revenue notes are as follows:

Year Ending June 30,	<u>General Obligation</u>		<u>Capital Loan Notes</u>		<u>Total</u>	
	<u>Bonds</u>					
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 38,779	\$ 7,033	\$ 20,000	\$ 25,338	\$ 58,779	\$ 32,371
2011	48,219	5,904	52,000	26,413	100,219	32,317
2012	54,085	3,237	52,000	23,941	106,085	27,178
2013	9,869	231	52,000	21,428	61,869	21,659
2014	-	-	52,000	18,862	52,000	18,862
2015-2019	-	-	165,000	62,233	165,000	62,233
2020-2024	-	-	135,000	28,126	135,000	28,126
2025	-	-	22,000	1,265	22,000	1,265
	<u>\$ 150,952</u>	<u>\$ 16,405</u>	<u>\$ 550,000</u>	<u>\$ 207,606</u>	<u>\$ 700,952</u>	<u>\$ 224,011</u>

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$275,000 in sewer revenue notes issued in January, 2001. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from sewer customer net receipts and are payable through 2015. The total principal and interest remaining to be paid on the notes is \$183,000. For the current year, principal and interest paid and total customer net receipts were \$30,200 and \$4,765 respectively.

The City has pledged future golf course receipts, net of specified operating disbursements, to repay \$400,000 in municipal golf course enterprise revenue capital loan notes issued in June, 2009. Proceeds from the notes provided financing for improvements to the municipal golf course. The notes are payable solely from golf course net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$574,606. For the current year, principal and interest paid and total customer net receipts were \$0 and \$33,187, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- b. Sufficient monthly transfers shall be made to a separate sewer and golf course revenue sinking funds for the purpose of making the principal and interest payments when due.
- c. Additional monthly transfers to a separate sewer reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying principal and interest if the sinking fund is insufficient.

The City has established the sinking and reserve accounts required by the sewer revenue bond resolution. The golf course sinking fund, however, has not yet been established.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2009, was \$19,908 equal to the required contribution for the year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory leave payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 17,282
Compensatory Leave	<u>4,541</u>
	<u>\$21,823</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

7. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Plymouth County Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2009, \$29,628 was paid pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform maintenance and monitoring functions at the site for thirty years after closure. The cost for closure and post closure to the Agency have been estimated at \$730,000 as of June 30, 2008, which is the latest information available, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2008 deposits of \$505,215 are restricted for these purposes. No estimate has been made as to the effect of future assessments to the City.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 12,692
	Enterprise:	
	Electric	<u>10,000</u>
		<u>22,692</u>
Special Revenue:		
Road Use	General	168,735
	Special Revenue:	
	Local Option Sales Tax	131,000
	Enterprise:	
	Electric	<u>3,856</u>
		<u>303,591</u>
Special Revenue:	Enterprise:	
Tax increment financing	Electric	<u>197,055</u>
Enterprise:	Enterprise:	
Sewer	Water	<u>20,000</u>
Enterprise:		
Electric	General	10,000
	Special Revenue:	
	Tax increment financing	<u>164,000</u>
		<u>174,000</u>
		<u>\$ 717,338</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. SERVICE AGREEMENTS

The City has an agreement with Van's Sanitation for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$30,720 for the year ended June 30, 2009.

10. EQUITY IN COOPERATIVE

City of Hinton is a member of Western Iowa Municipal Electric Cooperative Association which distributes electric energy to its members. The total equity of this cooperative at December 31, 2008, the latest audited financial statements, is as follows:

Membership fees	\$ 600
Patronage capital	2,088,131
Other equities	<u>2,527,770</u>
Total	<u>\$ 4,616,501</u>

The City is one of six members of this Cooperative. The City's share of membership fees and patronage capital is \$100 and \$142,397, respectively. The City's share of the other equities has not been determined.

CITY OF HINTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. RISK MANAGEMENT

City of Hinton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. COMMITMENTS

During the year ended June 30, 2002, the City entered into a 28E Agreement with Plymouth County and surrounding communities to contribute funds for the construction of a County jail from local option sales tax proceeds. The City of Hinton has agreed to contribute a total of \$190,401 through November, 2016. As of June 30, 2009, the City has made payments totaling \$89,230.

13. CONSTRUCTION CONTRACTS

The City has entered into the following contracts which were not completed as of June 30, 2009.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-09</u>	<u>Remaining Commitment As of 6-30-09</u>
Golf course clubhouse improvement project	\$ 467,932	\$ -	\$ 467,932

14. FIRE DEPARTMENT LOAN

The Fire Department borrowed funds from the Electric Department to purchase an ambulance. As of June 30, 2009, \$81,850 remains to be paid on this loan. The Fire Department has been paying \$10,000 per year on this loan.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HINTON
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>	<u>Budgeted Amounts</u>		Final to Total Variance
				<u>Original</u>	<u>Final</u>	
Receipts:						
Property tax	\$ 254,371	\$ -	\$ 254,371	\$ 252,927	\$ 252,927	\$ 1,444
Tax increment financing	163,820	-	163,820	164,000	164,000	(180)
Other city tax	79,249	-	79,249	71,325	71,325	7,924
License and permits	1,330	-	1,330	2,045	2,045	(715)
Use of money and property	23,839	30,789	54,628	58,100	58,100	(3,472)
Intergovernmental	67,040	-	67,040	68,000	68,000	(960)
Charges for service	-	1,061,130	1,061,130	1,019,100	1,019,100	42,030
Miscellaneous	27,845	23,298	51,143	22,500	22,500	28,643
Total receipts	<u>617,494</u>	<u>1,115,217</u>	<u>1,732,711</u>	<u>1,657,997</u>	<u>1,657,997</u>	<u>74,714</u>
Disbursements:						
Public safety	124,931	-	124,931	129,818	129,818	4,887
Public works	575,073	-	575,073	196,300	609,300	34,227
Culture and recreation	42,571	-	42,571	100,000	100,000	57,429
Community and economic development	-	-	-	600	600	600
General government	94,990	-	94,990	110,400	110,400	15,410
Debt service	37,500	-	37,500	37,500	37,500	-
Business type activities	-	1,048,037	1,048,037	1,101,650	1,101,650	53,613
Total disbursements	<u>875,065</u>	<u>1,048,037</u>	<u>1,923,102</u>	<u>1,676,268</u>	<u>2,089,268</u>	<u>166,166</u>
Excess (deficiency) of receipts over disbursements	(257,571)	67,180	(190,391)	(18,271)	(431,271)	240,880
Other financing sources, net	<u>36,911</u>	<u>363,089</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(220,660)	430,269	209,609	(18,271)	(431,271)	640,880
Balances, beginning of year	<u>528,448</u>	<u>1,476,193</u>	<u>2,004,641</u>	<u>1,905,409</u>	<u>1,905,409</u>	<u>99,232</u>
Balances, end of year	<u>\$ 307,788</u>	<u>\$ 1,906,462</u>	<u>\$ 2,214,250</u>	<u>\$ 1,887,138</u>	<u>\$ 1,474,138</u>	<u>\$ 740,112</u>

See accompanying independent auditor's report.

CITY OF HINTON
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2009 the budget was amended one time which increased budgeted disbursements by \$413,000. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF HINTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 1

	<u>Special Revenue</u>		
	Local	Debt	
	Option	Service	
	<u>Sales Tax</u>		<u>Total</u>
Receipts:			
Property tax	\$ -	\$ 37,490	\$ 37,490
Other city tax	<u>77,916</u>	<u>163</u>	<u>78,079</u>
Total receipts	<u>77,916</u>	<u>37,653</u>	<u>115,569</u>
Disbursements:			
Debt service	<u>-</u>	<u>37,500</u>	<u>37,500</u>
Excess of receipts over disbursements	77,916	153	78,069
Other financing uses:			
Transfers out	<u>(143,692)</u>	<u>-</u>	<u>(143,692)</u>
Net change in cash balances	(65,776)	153	(65,623)
Cash balances beginning of year	<u>65,837</u>	<u>(18)</u>	<u>65,819</u>
Cash balances end of year	<u>\$ 61</u>	<u>\$ 135</u>	<u>\$ 196</u>
Cash Basis Fund Balances			
Unreserved:			
Special Revenue	<u>\$ 61</u>	<u>\$ 135</u>	<u>\$ 196</u>

See accompanying independent auditor's report.

CITY OF HINTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

Schedule 2

	Enterprise				
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Utility Deposit</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 79,363	\$ 31,116	\$ 58,213	\$ -	\$ 168,692
Miscellaneous	-	-	500	850	1,350
Total operating receipts	79,363	31,116	58,713	850	170,042
Operating disbursements:					
Business type activities	55,627	26,351	60,348	400	142,726
Excess (deficiency) of operating receipts over operating disbursements	23,736	4,765	(1,635)	450	27,316
Non-operating receipts (disbursements):					
Interest on investments	3,914	2,368	-	-	6,282
Debt service	-	(30,200)	-	-	(30,200)
Total non-operating receipts (disbursements)	3,914	(27,832)	-	-	(23,918)
Excess (deficiency) of receipts over disbursements	27,650	(23,067)	(1,635)	450	3,398
Operating transfers in	-	20,000	-	-	20,000
Operating transfers out	(20,000)	-	-	-	(20,000)
	(20,000)	20,000	-	-	-
Net change in cash balances	7,650	(3,067)	(1,635)	450	3,398
Cash balances beginning of year	174,581	121,530	14,144	1,400	311,655
Cash balances end of year	\$ 182,231	\$ 118,463	\$ 12,509	\$ 1,850	\$ 315,053
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ 77,822	\$ -	\$ -	\$ 77,822
Unreserved	182,231	40,641	12,509	1,850	237,231
Total cash basis fund balances	\$ 182,231	\$ 118,463	\$ 12,509	\$ 1,850	\$ 315,053

See accompanying independent auditor's report.

CITY OF HINTON
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2009

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds and loan									
Golf course	March 1, 1993	6.00%	\$ 400,000	\$ 125,000	\$ -	\$ 30,000	\$ 95,000	\$ 7,500	\$ -
Fire Truck	August 8, 2005	4.70	<u>120,000</u>	<u>81,198</u>	<u>-</u>	<u>25,246</u>	<u>55,952</u>	<u>5,088</u>	<u>-</u>
			<u>\$ 620,000</u>	<u>\$ 206,198</u>	<u>\$ -</u>	<u>\$ 55,246</u>	<u>\$ 150,952</u>	<u>\$ 12,588</u>	<u>\$ -</u>
Revenue capital loan notes									
Sewer	January 15, 2001	6.00%	\$ 275,000	\$ 170,000	\$ -	\$ 20,000	\$ 150,000	\$ 10,200	\$ -
Golf Course	June 15, 2009	3.60-5.75	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>-</u>
			<u>\$ 675,000</u>	<u>\$ 170,000</u>	<u>\$ 400,000</u>	<u>\$ 20,000</u>	<u>\$ 550,000</u>	<u>\$ 10,200</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HINTON
BOND AND NOTE MATURITIES
JUNE 30, 2009

Schedule 4

Year Ending June 30,	Revenue Capital Loan Notes				General Obligation Bonds				
	Sewer Improvement		Golf Course		Golf Course Bonds		Fire Truck Loan		
	<u>Issued January 15, 2001</u>		<u>Issued June 15, 2009</u>		<u>Issued March 1, 1993</u>		<u>Issued August 8, 2005</u>		
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
2010	6.00%	\$ 20,000	- %	\$ -	6.00%	\$ 30,000	4.70%	\$ 8,779	\$ 58,779
2011	6.00	25,000	3.60	27,000	6.00	30,000	4.70	18,219	100,219
2012	6.00	25,000	3.75	27,000	6.00	35,000	4.70	19,085	106,085
2013	6.00	25,000	3.95	27,000	-	-	4.70	9,869	61,869
2014	6.00	25,000	4.05	27,000	-	-	-	-	52,000
2015	6.00	30,000	4.25	27,000	-	-	-	-	57,000
2016	-	-	4.45	27,000	-	-	-	-	27,000
2017	-	-	4.55	27,000	-	-	-	-	27,000
2018	-	-	4.65	27,000	-	-	-	-	27,000
2019	-	-	4.75	27,000	-	-	-	-	27,000
2020	-	-	4.85	27,000	-	-	-	-	27,000
2021	-	-	5.05	27,000	-	-	-	-	27,000
2022	-	-	5.25	27,000	-	-	-	-	27,000
2023	-	-	5.45	27,000	-	-	-	-	27,000
2024	-	-	5.65	27,000	-	-	-	-	27,000
2025	-	-	5.75	22,000	-	-	-	-	22,000
		<u>\$ 150,000</u>		<u>\$ 400,000</u>		<u>\$ 95,000</u>		<u>\$ 55,952</u>	<u>\$ 700,952</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

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RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Hinton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hinton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 4, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hinton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Hinton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Hinton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Hinton's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Hinton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hinton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hinton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Hinton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hinton, and other parties to whom City of Hinton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 4, 2010

Hungelman, Putzier & Co.

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The control procedures have been reviewed and the City Council will continue to monitor the duties of the Clerk.

Conclusion - Response accepted.

- I-B-09 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - The Hinton City council is satisfied with the ability of the Clerk to provide financial information and do the appropriate city and state reports. If detailed financial statements, other than cash basis, become a legal requirement in the future, education will be authorized.

Conclusion - Response accepted.

- I-C-09 Fire Department and Ambulance Funds - The Fire Department and Ambulance currently maintain separate bank accounts which are not included in the City's financial records. These may be departments of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (continued)

I-C-09 Fire Department and Ambulance Funds – (continued)

Recommendation – If these entities are departments of the City, the funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response – The City Council will be reviewing the structure of the Fire Department to try to determine how they were set up. The Fire Department will continue submitting a monthly financial report for review.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted in any program.

II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-09 Business Transactions - We noted no business transactions between the City and City officials or employees.

II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-09 Revenue Notes - The City has established the sinking and reserve funds required by the sewer revenue note resolution. However, the City has not established the sinking fund required by the golf course revenue note resolution.

Recommendation – The sinking fund should be established and monthly transfers should be made from the Golf Course Fund as required by the note agreement.

Response – This fund has been established.

Conclusion – Response accepted.

II-H-09 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

CITY OF HINTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Statutory Reporting: (Continued)

I-I-09 Excess Balances – The General Fund has a balance at June 30, 2009, which is in excess of one years expenditures.

Recommendation – While it appears that the fund may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – The excess balance in the general fund will be used for a future park project and also to repay the electric department for a land loan.

Conclusion – Response accepted.

II-J-09 General Obligation Fire Truck Loan – The City authorized the Fire Department to borrow \$120,000 in 2005 to be used towards the purchase of a fire truck. The loan is in the City's name, and the Mayor and City Clerk signed the loan. However, this loan is not included in the City's reports, and the payments are not budgeted by the City.

Recommendation – The City should include the principle and interest payments in the budgeted disbursements and should report this debt as general obligation debt in the applicable reports.

Response – This loan has been paid in full. Any future Fire Department loans will be listed as City debt.

Conclusion – Response accepted.